

# Idaho Economic Forecast

DIRK KEMPTHORNE, Governor

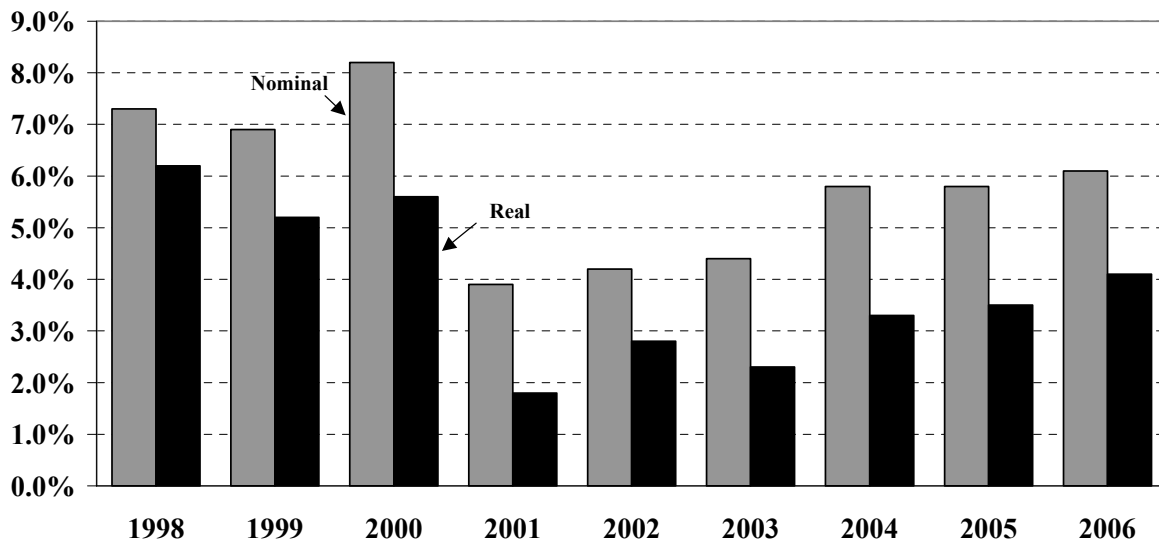
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- Forecast 2002-2006
- Recent Trends in Unemployment Duration
- Alternative Forecasts

## Idaho Nominal & Real Personal Income Growth



**IDAHO  
ECONOMIC  
FORECAST  
2002 - 2006**

State of Idaho  
**DIRK KEMPTHORNE**  
Governor

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## PREFACE

Idaho's economy continues to grow and evolve as it enters the 21<sup>st</sup> Century. The 1980s was a decade of stop-and-start economic performance. However, it also ushered in one of the longest expansions in the state's history. Since 1987, nonfarm employment has expanded in every year and consistently placed Idaho among the top ten fastest growing states in the nation. The 1990s saw a flood of new residents move into the state, causing the population to expand by an astounding 29% from 1990 to 2000. Over this period Idaho personal income nearly doubled. Much of the current expansion results from ongoing structural changes in Idaho's economy.

One of the biggest changes is the rise of the state's high-technology sector. Virtually nonexistent in the 1970s, this sector achieved critical mass in the 1990s to become the state's largest manufacturing employer. The growth of industry giants, such as Micron Technology and Hewlett-Packard, as well as the emergence and expansion of smaller companies, pushed payrolls above even the most optimistic forecasts made in the 1980s. The state's trade sector has also been going through a transformation. The last decade witnessed an influx of national "big box" merchandisers. During this same time, Idaho merchants successfully reached beyond the state's borders. Several regional shopping centers were established that serve locals, as well as attract shoppers from other states and Canada. Visitors fueled the surge in tourism that also benefited trade. Like its national counterpart, the service sector accounts for most of the nonfarm jobs in Idaho. Tourism has also been a boon to the service industry. While traditional factors, such as increasing discretionary income, continue to fuel the demand for services, other influences have emerged. For example, the use of temporary employees in manufacturing has bolstered business services employment. Idaho's outstanding work force has been a major factor in attracting call centers, back office operations, and credit companies.

While many changes are taking place today, traditional resource industries still play a major role in Idaho's economy. Indeed, the state's mining, agriculture, and timber sectors all experienced lulls in the late 1990s. While displaying more resilience to downturns than in the past, these industries are not totally immune from business-cycle effects. This continuing dependence on natural resources will bring a host of challenges to Idaho. These challenges include competition among agriculture, fisheries, and expanding population, for water and energy; the environmental impacts of the economically important mining, timber, agricultural, and tourism industries; and the many other pressures of an expanding population on the state's natural and fiscal resources.

Other factors that are external to the state's economy will present challenges this decade to public and private decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Engineering and Environmental Laboratory and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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## INTRODUCTION

The national forecast presented in this publication is the December 2002 Global Insight baseline forecast of the U.S. economy. The previous *Idaho Economic Forecast* is based on the October 2002 Global Insight baseline national forecast.

The cover graph features the historical and forecasted growth rates for Idaho nominal and real personal incomes. The nine years included in the graph can be combined into three periods. The first three year period (1998 to 2000) is a strong growth period. During this time, Idaho nominal personal income grew at least 7.0% and real personal income rose a minimum of about 5.0%. This contrasts vividly with the next period's (2001 to 2003) slower growth. This is especially noticeable in comparing 2000 to 2001. In the former year, nominal personal income grew over 8.0% and real income increased about 5.5%. In 2001, both these measures grew at half their previous year's pace. Over the entire period from 2001 to 2003, Idaho nominal personal income is expect to rise just over 4.0% annually and real personal income should increase between 2% and 3%. It is anticipated income growth will accelerate in the last three-year period (2004 to 2006). While both measures of personal income are not expected to repeat their performances of 1998-2000, it will be an improvement over 2001-2003.

## FEATURE

The weak jobs picture is no doubt one of the most frustrating legacies of the 2001 recession. There are several ways to measure this phenomenon. The unemployment rate and nonfarm employment are two of the most common. Another concept is the duration of unemployment. In this article, the Federal Reserve Bank of San Francisco's Rob Valetta discusses this concept, the various measures available, and the evidence regarding the pattern of unemployment duration in the current business cycle compared to past cycles. Mr. Valetta is a Research Advisor with the Federal Reserve Bank of San Francisco.

## THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. Global Insight examines the effects of different economic scenarios, including the potential impacts of international recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are included in this report.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1987 to 2006 and for every quarter from 2000 through 2005. The solution of the Idaho Economic Model (IEM) for this forecast begins with the third quarter of 2002.

Descriptions of the Global Insight U.S. Macroeconomic Model and the IEM are provided in the Appendix. Equations of the IEM and variable definitions are listed in the last pages of this publication.

## CHANGES

Regular readers of the *Idaho Economic Forecast* will notice references to Global Insight in place of DRI\*WEFA. We have not switched to another economic consulting service. Instead, our economic service has changed its name. On October 28, 2002, DRI\*WEFA was rebranded as Global Insight, marking the

completion of the integration of two of the nation's most recognized economic consulting services into a single entity.

The employment numbers that appear in this publication are based on monthly data collected by the Idaho Department of Labor. The data through the first half of 2002 are final. All of these data have been seasonally adjusted and converted into quarterly estimates by the Division of Financial Management (DFM). These current data show that DFM's previous forecast of Idaho nonfarm employment in the second quarter of 2002 was too low. Specifically, actual nonfarm employment in the second quarter of 2002 was 567,260, which was nearly 7,000 (1.2%) higher than DFM had forecasted in October 2002.

The tables in this forecast include the U.S. Department of Commerce's Bureau of Economic Analysis (BEA) estimates of Idaho quarterly personal income through the second quarter of 2002. In addition to the 2002 second quarter income estimates, the historical Idaho quarterly income estimates since 1999 were also revised. The BEA will release its next Idaho personal income estimates in late January 2003.

The *Idaho Economic Forecast* is available on the Internet at [http://www.state.id.us/dfm/econ\\_pub.html](http://www.state.id.us/dfm/econ_pub.html). Readers with any questions should contact Derek Santos at (208) 334-3900 or at [dsantos@dfm.state.id.us](mailto:dsantos@dfm.state.id.us).

## SUBSCRIPTIONS

You can access the *Idaho Economic Forecast* for free at [http://www.state.id.us/dfm/econ\\_pub.html](http://www.state.id.us/dfm/econ_pub.html).

Printed copies of the *Idaho Economic Forecast* may be requested by contacting:

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